

DOWAGIAC DISTRICT LIBRARY

DOWAGIAC, MICHIGAN

FINANCIAL STATEMENTS

Year ended September 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name DOWAGIAC DISTRICT LIBRARY	County CASS
Fiscal Year End SEPTEMBER 30, 2006		Opinion Date OCTOBER 24, 2006		Date Audit Report Submitted to State DECEMBER 14, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

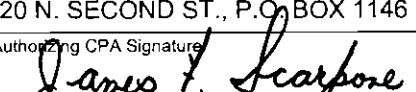
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	Verbal comments communicated at Board meeting deemed appropriate.		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) SCARPONE & CO., P.C., CPA'S		Telephone Number (269) 684-5100		
Street Address 20 N. SECOND ST., P.O. BOX 1146		City NILES	State MI	Zip 49120
Authorizing CPA Signature 		Printed Name JAMES F. SCARPONE		License Number 11507

DOWAGIAC DISTRICT LIBRARY

DOWAGIAC, MICHIGAN

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DOWAGIAC DISTRICT LIBRARY
DOWAGIAC, MICHIGAN

DISTRICT LIBRARY BOARD

Jackie Baker	-	Chairman
Judy Lawrence	-	Vice-Chairman
Ann Greene	-	Secretary
Judy Fusko	-	Treasurer
Jackie Goodman	-	Member
Ron Jones	-	Member
Beverly Nemeth	-	Member



SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

October 24, 2006

**Members of the Library Board
Dowagiac District Library
Dowagiac, Michigan**

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of Dowagiac District Library as of and for the year ended September 30, 2006, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the management of Dowagiac District Library. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Dowagiac District Library as of September 30, 2006, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Scarpone & Co., P.C.

DOWAGIAC DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

The Library is reporting financial statements that meet the requirements of Governmental Accounting Standards Board Statement 34 (GASB No. 34). The two primary elements involved in meeting these requirements is the addition of a Management's Discussion and Analysis (MD&A) and the reporting of all capital assets and depreciation of such assets.

Library materials and other fixed assets acquired in years prior to October 1, 2004, such as furniture, equipment and computers, were determined to have exceeded their estimated useful lives and therefore fully depreciated. Such assets are not reflected in the statement of net assets.

Condensed Financial Information

The table below compares certain financial information in a condensed format for the years ended September 30, 2006 and 2005, respectively:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 227,785	\$ 154,504
Capital assets	93,052	41,375
Total assets	320,837	195,879
Current liabilities	7,275	4,368
Net assets:		
Invested in capital assets	93,052	41,375
Restricted	67,782	35,309
Unrestricted	152,728	114,827
Total net assets	\$ 313,562	\$ 191,511
Revenues:		
Property taxes	\$ 286,002	\$ 277,706
City of Dowagiac	-	13,000
Penal fines	63,068	63,399
State-shared revenues	10,298	12,334
Charges for services	12,369	11,872
Other	15,133	7,395
Total revenues	386,870	385,706
Expenditures	264,819	237,483
Change in net assets	\$ 122,051	\$ 148,223

DOWAGIAC DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONCLUDED

September 30, 2006

Overall Financial Position

The library's primary source of revenue is from property taxes and penal fines. For the year ended September 30, 2006, total tax collections were \$286,002 and total penal fine revenues totaled \$63,068, which represented 74% and 16% of total revenues, respectively.

Employee compensation, including related payroll taxes and fringe benefits are the largest overall expenditures of the Library. For the year ended September 30, 2006, these expenditures totaled \$144,999, which represented 45% of the Library's total expenditures.

Expenditures for budgeted capital outlay were the second largest overall expenditures of the Library, totaling \$70,432 for the year, which represented approximately 22% of the Library's total expenditures. Such expenditures are summarized as follows:

Elevator plans	\$ 1,575
Fire alarm system	2,748
Air conditioning system	33,127
Floor design plans	7,250
Bathroom improvements	2,992
Microfilm reader	7,741
Computers and monitors	6,368
LCD projector	1,038
Public internet access software	4,145
Other capital outlay (under capitalization threshold)	3,448
Total	\$ 70,432

Library materials, which consist of additions to the Library's books, audio, video and periodical collections, were the third largest overall expenditures of the Library. These expenditures totaled \$41,027, and represented approximately 13% of the Library's total expenditures.

LIBRARY BUDGET HIGHLIGHTS

During the course of the fiscal year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurring were changes in the budgeted employee wages and fringe benefits.

DOWAGIAC DISTRICT LIBRARY
GOVERNMENTAL FUNDS BALANCE SHEET
AND
STATEMENT OF NET ASSETS

September 30, 2006

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>	<u>Adjustments (Note G)</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 158,638	\$ 69,147	\$ 227,785	\$ -	\$ 227,785
Capital assets, net of accumulated depreciation	-	-	-	93,052	93,052
TOTAL ASSETS	\$ 158,638	\$ 69,147	\$ 227,785	\$ 93,052	\$ 320,837
 <u>LIABILITIES</u>					
Accounts payable	\$ 5,910	\$ 1,365	\$ 7,275	\$ -	\$ 7,275
 <u>FUND BALANCES/NET ASSETS</u>					
Restricted for capital outlay	-	67,782	67,782	(67,782)	-
Unrestricted	152,728	-	152,728	(152,728)	-
	152,728	67,782	220,510	(220,510)	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 158,638	\$ 69,147	\$ 227,785		
 Net Assets					
Invested in capital assets					93,052
Restricted for capital outlay					67,782
Unrestricted					152,728
TOTAL NET ASSETS					\$ 313,562

See accompanying notes to basic financial statements.

DOWAGIAC DISTRICT LIBRARY

**GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES**

For the year ended September 30, 2006

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Total</u>	<u>Adjustments (Note G)</u>	<u>Statement of Activities</u>
REVENUES:					
Local taxes	\$ 286,002	\$ -	\$ 286,002	\$ -	\$ 286,002
Penal fines	63,068	-	63,068	-	63,068
State-shared revenues	10,298	-	10,298	-	10,298
Charges for services	12,369	-	12,369	-	12,369
Ladies Library Association contribution	5,961	-	5,961	-	5,961
Other contributions and gifts	2,807	-	2,807	-	2,807
Interest and dividends	2,170	2,905	5,075	-	5,075
Miscellaneous revenue	1,290	-	1,290	-	1,290
Total Revenues	383,965	2,905	386,870	-	386,870
EXPENDITURES:					
Salaries and wages	119,347	-	119,347	-	119,347
Payroll taxes	9,130	-	9,130	-	9,130
Health and dental	13,430	-	13,430	-	13,430
Life insurance	228	-	228	-	228
Retirement	2,864	-	2,864	-	2,864
Worker's compensation	678	-	678	-	678
Supplies	6,531	-	6,531	-	6,531
Professional fees	5,655	-	5,655	-	5,655
Contractual maintenance	9,162	-	9,162	-	9,162
Co-op membership	2,875	-	2,875	-	2,875
Telephone	1,559	-	1,559	-	1,559
Travel and training	2,144	-	2,144	-	2,144
Community promotion	4,393	-	4,393	-	4,393
Insurance	4,571	-	4,571	-	4,571
Utilities	10,470	-	10,470	-	10,470
Equipment maintenance	4,909	-	4,909	-	4,909
Building maintenance	5,054	-	5,054	-	5,054
Miscellaneous	616	-	616	-	616
General fund administration	1,421	-	1,421	-	1,421
Library materials	41,027	-	41,027	-	41,027
Contingency	-	-	-	-	-
Capital outlay	-	70,432	70,432	(58,159)	12,273
Depreciation	-	-	-	6,482	6,482
Total Expenditures	246,064	70,432	316,496	(51,677)	264,819
Excess (Deficiency) of Revenues Over (Under) Expenditures	137,901	(67,527)	70,374	51,677	122,051
OTHER FINANCING SOURCES (USES)					
Transfers In (Out)	(135,309)	135,309	-		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	2,592	67,782	70,374		
Change in Net Assets					122,051
FUND BALANCES/NET ASSETS					
Beginning of Year	150,136	-	150,136	41,375	191,511
End of Year	\$ 152,728	\$ 67,782	\$ 220,510	\$ 93,052	\$ 313,562

See accompanying notes to basic financial statements.

DOWAGIAC DISTRICT LIBRARY
NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Dowagiac District Library ("Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the significant policies adopted by the Library are as follows:

REPORTING ENTITY:

Effective September 15, 2003, the Dowagiac District Library commenced its official operation. The Dowagiac District Library is comprised of all the territory which is currently located within the jurisdictional limits of the City of Dowagiac, Cass County; Wayne Township, Cass County; and the Dowagiac Union School District that is not part of the Cass District Library and the portion of the Dowagiac Union School District that is not part of the Eau Claire District Library. Accordingly, the Dowagiac District Library district includes a portion of the County of Cass, and significantly lesser portions of the County of Van Buren and the County of Berrien, State of Michigan.

The Library is funded primarily through property taxes, state aid, penal fines, grants, and donations. The voters of the districts approved a permanent .75 mill tax, which began with the tax levy effective December 1, 2005. Due to the Headlee roll back amendment, a net .7244 mill tax was in effect for the Winter, 2005 tax roll.

The Library is governed by an appointed board (the "Library Board") which consists of seven members. The City of Dowagiac provides two members; the Dowagiac Union School District provides three members; and Wayne Township provides two members.

BASIS OF PRESENTATION:

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) and Fund Financial Statements. The government-wide and fund financial statements are combined, with a reconciliation shown between them.

The Library has two funds, the General Fund and the Capital Fund.

General Fund - The General Fund is the general operating fund of the Library and accounts for all revenues and expenditures of the Library not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Capital Fund - The Capital Fund is used to account for the accumulation of resources appropriated for capital outlay expenditures.

DOWAGIAC DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

The funds are budgeted and accounted for using the current financial resources measurement and the modified accrual basis of accounting. Revenue is recognized as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are recorded at cost and include cash investments with an original maturity of three months or less.

CAPITAL ASSETS:

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Building improvements	25 years
Furniture and equipment	5-10 years

The minimum capitalization threshold is any item with a total cost greater than \$1,000.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

DOWAGIAC DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended September 30, 2006

NOTE B - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consisted of the following at September 30, 2006:

Petty cash	\$	50
Deposits in financial institutions		227,735
	\$	227,785

The above deposits in financial institutions of \$227,735 were reflected in the accounts of the Library's financial institutions (without recognition of checks written but not yet cleared, or of deposits in transit) at \$233,967. Of that amount, \$160,000 was covered by federal depository insurance coverage and \$73,967 was uninsured and uncollateralized.

NOTE C - CAPITAL ASSETS:

Capital asset activity of the Library's governmental activities for the year ended September 30, 2006 was as follows:

	Balance Sept. 30, 2005	Additions	Deletions	Balance Sept. 30, 2006
Building improvements	\$ 30,480	\$ 38,867	\$ -	\$ 69,347
Furniture and equipment	12,783	19,292	-	32,075
	43,263	58,159	-	101,422
Accumulated depreciation	(1,888)	(6,482)	-	(8,370)
Net capital assets	\$ 41,375	\$ 51,677	\$ -	\$ 93,052

The Library's capital assets acquired in years prior to the year ended September 30, 2005, were deemed to have exceeded their estimated useful lives and therefore are fully depreciated. Such assets are not reflected in the Statement of Net Assets.

NOTE D - RESTRICTED NET ASSETS:

Restricted net assets represents cash held in a separate money market account, which is to be used exclusively for budgeted capital outlay expenditures. Restricted net assets are now accounted for in a separate fund, the Capital Fund. Restricted net assets at September 30, 2006 were \$67,782.

NOTE E - PENSION PLAN:

The Library has established a pension plan for its employees which is being administered through the Municipal Employees' Retirement System of Michigan (MERS).

For the year ended September 30, 2006, the employer contribution was approximately 4.7% of reported eligible wages and totaled \$2,864.

DOWAGIAC DISTRICT LIBRARY

NOTES TO BASIC FINANCIAL STATEMENTS - CONCLUDED

For the year ended September 30, 2006

NOTE F- RISK MANAGEMENT:

The Library maintains commercial insurance to insure potential significant losses. There have been no significant reductions in insurance coverage by the Library for the year ended September 30, 2006.

NOTE G - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference is a result of the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental funds balance sheet and statement of revenue, expenditures, and changes in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balances - modified accrual basis	\$ 220,510
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Amounts reported in the Statement of Net Assets are different because:

Capital assets are not financial resources, and are not reported in the funds	93,052
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Net assets of Governmental Funds - full accrual basis	\$ 313,562
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Net Change in Governmental Fuud Balances - modified accrual basis	\$ 70,374
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Amounts reported in the Statement of Activities are different because:

Capital outlays subject to the capitalization policy are reported as expenditures in the Statement of Revenue, Expenditures, and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay (subject to capitalization)	58,159
Depreciation	(6,482)

Change in Net Assets of Governmental Funds - full accrual basis	\$ 122,051
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REQUIRED SUPPLEMENTARY INFORMATION

DOWAGIAC DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the year ended September 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local taxes	\$ 285,000	\$ 285,000	\$ 286,002	\$ 1,002
Penal fines	58,700	58,700	63,068	4,368
State-shared revenues	10,000	10,000	10,298	298
Charges for services	11,000	11,000	12,369	1,369
Ladies Library Association contribution	4,000	5,000	5,961	961
Other contributions and gifts	2,000	3,000	2,807	(193)
Interest and dividends	1,000	2,000	2,170	170
Miscellaneous	1,000	1,000	1,290	290
	372,700	375,700	383,965	8,265
EXPENDITURES:				
Salaries and wages	130,000	130,000	119,347	10,653
Payroll taxes	9,850	9,850	9,130	720
Health and dental	13,800	13,800	13,430	370
Life insurance	210	230	228	2
Retirement	3,600	3,600	2,864	736
Severance/unemployment	4,000	-	-	-
Worker's compensation	500	800	678	122
Supplies	7,000	8,000	6,531	1,469
Professional fees	6,800	6,800	5,655	1,145
Contractual maintenance	9,200	9,200	9,162	38
Co-op membership	3,500	3,500	2,875	625
Telephone	1,600	2,000	1,559	441
Travel and training	4,000	3,000	2,144	856
Community promotion	7,000	4,470	4,393	77
Insurance	5,000	5,000	4,571	429
Utilities	11,000	13,000	10,470	2,530
Equipment maintenance	5,500	6,030	4,909	1,121
Building maintenance	7,000	7,000	5,054	1,946
Miscellaneous	1,000	1,000	616	384
General fund administration	2,000	2,000	1,421	579
Library materials	33,660	37,660	41,027	(3,367)
Contingency	6,480	8,760	-	8,760
Transfers out	100,000	100,000	135,309	(35,309)
	372,700	375,700	381,373	5,673
EXCESS OF REVENUES OVER EXPENDITURES	-	-	2,592	2,592
FUND BALANCE, BEGINNING OF YEAR	150,136	150,136	150,136	-
FUND BALANCE, END OF YEAR	\$ 150,136	\$ 150,136	\$ 152,728	\$ 2,592

See accompanying notes to basic financial statements.